Frequently Asked Questions

Factors Affecting Individual Premium Rates in 2014 for California, Milliman. March 28, 2013

1. **Why did Covered California commission the Milliman study on the individual health coverage market?**

   Covered California is committed to earning the public's trust through its accountability, responsiveness, transparency, speed, agility and cooperation.

   As part of this commitment, Covered California commissioned the study to evaluate potential changes to individual health insurance rates during 2014 due to the implementation of the Affordable Care Act.

   Improving access to affordable health care coverage is a top priority for Covered California. This study is an important analysis of potential impacts on individual consumers, and on insurance carriers, and is an important tool in determining strategies for protecting consumers from increased costs.

   We hope the study will provide health plans bidding on Covered California with additional information to price their bids appropriately. We also hope that this report encourages consumers to think about the important role they have as informed shoppers in 2014 in getting the best deal for them.

2. **What does the study show?**

   If you have insurance through your employer, the potential increases projected by this study do not apply to you. Those who buy an individual health plan will see an impact, however whether you will see decrease or increase in your costs will depend on your circumstances. Everyone purchasing an individual plan will have access to expanded benefits, and the ability to choose lower deductibles, and lower out-of-pocket maximums.

   The study points out:

   - By requiring insurance companies to issue insurance to any individual, the overall "health status" of the individual plan market will be sicker. This will cause rates to be higher, but millions more people, with more illness will have access to health coverage.

   - Expanded enrollment of a sicker population is estimated to cause rates to increase on average 26 percent for individual plans. This increase is offset by other factors such as an estimated 9 percent premium reduction due to the Affordable Care Act's temporary reinsurance program that reimburses carriers 80% of claims exceeding 60,000 dollars (capped at 250,000 dollars) and a projected reduction of costs of 6 percent due to better competition and more effective contracting.

- Rates in California were expected to rise by 9 percent in 2014 even in the absence of the Affordable Care Act due to underlying medical cost and utilization trends.

- For those who have insurance today, their premium may increase by an average of 16.9 percent due to a corresponding increase in improved coverage provided under the Affordable Care Act, but most of this increase does not apply to people that prefer a lower level of coverage. Also, this cost increase is offset by reduced costs at the time consumers receive care.

3. According to the study, what types of cost and benefit changes should people expect?

This report does not look at the 85 percent of Californians who received their health insurance though their employer. Generally, the Affordable Care Act does not affect the rates for these individuals. The hope is that in future years, these Californians will see decreases in their health care costs as they no longer pay for the burden of the millions of uninsured and benefit from improvements in how care is delivered because of Covered California's actions that benefit the entire market.

For people purchasing individual health plans, increases in rates are dependent upon their specific circumstance. However, there are four general scenarios that demonstrate potential costs:

- There are 570,000 people currently enrolled in individual health care plans who are eligible for premium tax credits through Covered California under the Affordable Care Act. This group includes working individuals and families who may not receive coverage through their employer. Californians who will qualify for the highest premium tax credits due to their income will see a drop on average, of 85 percent in what they pay for health coverage. Depending on the individual's choice of health plan, this premium tax credit could even cover a higher percentage of premium.

- There are1.6 million people currently uninsured and eligible for subsidies. Many of them could have 100 percent of their premiums covered through the Affordable Care Act. Those who make less money will be eligible for larger federal tax credits to make their health care more affordable. Households earning from 138 to 250 percent of the federal poverty level will likely see a drop on average, of 85 percent in what they pay for health coverage. Households earning 250 to 400 percent of federal poverty level will pay on average 45% less, for more coverage with lower copay and deductibles, than what they would have paid for an individual plan in 2013.

- Individuals currently enrolled in an individual plan, but not eligible for a subsidy because their income is above 400 percent of the Federal Poverty Level (for example, more than $93,700 for a family of four or $45,960 for an individual) will likely see an average premium increase of about 30.1 percent. They can lessen the impact by choosing coverage that has higher limits on out of pocket spending, which means that many would be able to avoid these increases and pay lower premiums.

- Individuals who are currently uninsured but make too much to qualify for the federal tax credit would face premiums similar to what they would have faced in the absence of the Affordable Care Act. The big difference, however, is that they now cannot be denied coverage by any health plan in California – whether through Covered California or in the broader individual market – as long as they apply during the open enrollment period.

For each scenario, the Milliman study quantified the potential premium costs and costs at time of care. The report did not detail or seek to calculate additional benefits to individuals and the public, which include:

- By getting insurance, individuals will be avoiding the financial obligation of paying a penalty that starts in 2014, and increases in future years. In 2014, the penalty for an individual who can afford coverage and chooses not to purchase it is 1 percent of their income or $95, whichever is greater. The penalty increases in future years.
- Those getting insurance help reduce costs for everyone else. In practical terms, currently everyone with insurance is paying the costs of those who go without and then have an expensive accident or event. The huge uncompensated debt to hospitals and other providers is paid by those with insurance. As more get insurance, these costs will decrease.

4. What benefits can Californians expect to see related to changes in health coverage in 2014?

The Affordable Care Act requires that health plans or insurers change some of their practices. At the same time, it preserves consumers' rights to keep the coverage they already had before the law was passed. Under the Affordable Care Act, all newly sold health plans must meet certain standards, such as:

- Rate Increase Rules –Insurance companies are required to spend 80 percent of premium dollars on quality health care, not administrative costs like salaries and marketing;

- No Lifetime Limits – Insurers are not allowed to set a maximum dollar amount they will pay for key health benefits during your lifetime;

- Preventive Care – All new health plans must cover preventive care and medical screenings like mammograms and colonoscopies, as well as women's services such as breast-feeding support, contraception and domestic violence screening. Insurers cannot charge copayments, coinsurance or deductibles for such services;

- Essential Health Benefits – Newly sold health plans must cover services that fall into these categories of Essential Health Benefits:
    - Ambulatory patient care;
    - Emergency service;
    - Hospitalization;
    - Maternity and newborn care;
    - Mental health and substance abuse disorder treatment;
    - Prescription drugs;
    - Rehabilitation and habilitation services and devices;
    - Lab services;
    - Preventive and wellness services and chronic disease support;
    - Pediatric services, including dental; and
    - Vision care.

Insurers offering products though Covered California's marketplace also must sell policies that meet these standards outside of Covered California; benefiting families and individuals whether they choose to purchase coverage though Covered California or not.

5. How does this affect individual consumers?

The changes to health care coverage will benefit all Californians through expanded care and improved standards for the policies sold in the state – whether through the marketplace or not. The impact on each individual will depend on the plan they have today, whether they are eligible for premium tax credits and/or cost sharing subsidies and their purchasing decisions in 2014.

The main "take home" for consumers is that they need to get informed and be smart about the benefits that may be available to them in 2014 and how to shop for the plan that gives them the best value.

6. What about young people; won't they face particularly high rate increases?

The report describes the change in "age rating" that takes effect because of the Affordable Care Act. Insurance companies that today may charge five times as much for the premium of an older person compared to the youngest adult they cover, will now only be able to charge three times as much. Because of this change, younger Californians could see an increase while those who are older could see a decrease. The youngest Californians (from 21 to 24 years old) could see their rates rise from 10 percent to as much as 30 percent due solely to this provision of the Affordable Care Act, while those in their 60's could see decreases of more than 10 percent.

The potential change for younger Californians, however, is likely to be more than offset by two factors. First, younger Californians tend to earn less so will be eligible for subsidies that can dramatically reduce their health care costs. In addition, the Affordable Care Act allowed for special "catastrophic plans" that will be available at reduced costs only to those who are younger than 30 years old.

7. What is Covered California doing to reduce health care costs in 2014 and beyond?

The study underscores the important role that Covered California can play in reducing costs for all Californians in the individual market – whether or not they buy through our marketplace. In estimating the premium adjustments due to the Affordable Care Act, the Report identifies Low, Best Estimate and High potential changes to rates. Three areas are particularly sensitive to the work of Covered California:

- Health Status: Instead of the "Best Estimate" of a 26.5 percent increase in premium because of health status, that increase could be 11.5 percent LOWER. The biggest reason for a lower rate will be if Covered California is successful at enrolling the millions of Californians who are eligible for federal support and generally promoting enrollment to assure a healthy mix of enrollment.

- Provider Contracting Changes: The "Best Estimate" is that premiums will be 6 percent lower than they would have been absent the competition generated by the Affordable Care Act. Covered California is working to promote affordable health plans that will have good networks at the best possible prices to consumers. If we are successful, the premium reduction could be even lower.

- Reduced Administrative Expenses: The "Best Estimate" is that the Affordable Care Act changes will reduce premiums by 4.5 percent due to spending less on administrative processes, primarily attributable to reduced commissions.Covered California has created standard plan designs that allow consumers to make apples-to-apples comparisons. Those standard designs also will simplify the lives of doctors, nurses and patients who get care – enabling health plans and all of us to save money. We hope to promote savings like this in the coming months.

Covered California is in the process of selecting plans who will provide care in 2014 and beyond. Central to Covered California's selection and contracting process is to promote changes that lower costs by assuring consumers get the right care when they need it and are kept healthy. These provisions include coordinating with other purchasers – such as Medicare, Medi-Cal, CalPERS and major private purchasers – to change how we pay for health care to better reward primary care and care coordination.

8. Where can consumers get more information about Covered California and the upcoming new marketplace?

Covered California has a consumer-friendly website with fact sheets in the 13 languages most used in California. The website address is www.coveredca.com. Covered California also has launched a call center to help consumers. Covered California customer service representatives are available from 8 a.m. to 5 p.m. Monday through Friday at 1-(888) 975-1142.